

Transportation Revenues in Arizona

Introduction

Arizona's transportation system, highways, transit, rail, aviation, etc., relies on a variety of funding sources for capital improvements, ongoing operations, and maintenance. One important project for the Task Force is to assess how we are currently paying for transportation, how Arizona compares with other states, and how funding sources and their revenue-generating capacity may change in the years ahead.

Highways

Highways in Arizona are financed through a combination of fees, state, federal and local taxes. The Highway User Revenue Fund (HURF), established in 1974, is the depository fund for motor fuels tax revenues and revenue collected from a variety of fees and charges relative to the registration and operation of motor vehicles on Arizona's public roadways. The principal categories of HURF revenues are:

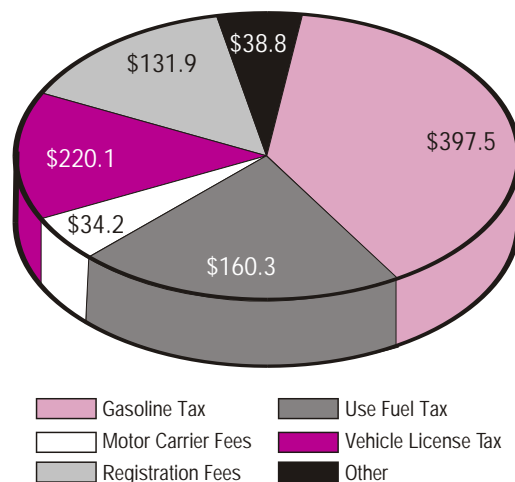
- ▼ Gasoline and Use Fuel Taxes
- ▼ Motor Carrier Fees
- ▼ Vehicle License Tax
- ▼ Motor Vehicle Registration Fees,
- ▼ Other Miscellaneous Fees.

In Fiscal Year 1999, HURF revenue totaled \$982.8 million. The allocation of HURF revenue is shown in Figure 1. HURF revenues may only be used for highways and highway-related uses.

For example, HURF revenues may not be used to fund transit.

Figure 1

FY 1999 HURF Revenue
(HURF Allocation in Millions)



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What are Arizona's Long Term Transportation Needs?

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Major Highway User Fund Revenues

Gasoline Taxes

Quite simply, these are the taxes that you pay at the pump when you purchase gasoline for your car or truck. Arizona's motor vehicle fuel tax is currently 18¢ per gallon. The last motor vehicle fuel tax increase was in FY 1991. The gas tax produces more revenue for HURF than any other source. Currently, the gas tax accounts for approximately 40% of total HURF revenues. In FY 1999, one cent (1¢) of gas tax yielded \$22.1 million of HURF revenues. From FY 1990 to FY 1999, HURF gas tax revenues increased on average 3.7% annually. Projections for the period FY 2000 to FY 2009 assume a conservative average annual increase of 2.8%.

Use Fuel Tax

This refers to taxes on diesel fuel. The current tax for passenger cars and light trucks is 18¢. The tax for large commercial diesel trucks and buses is 26¢. The use fuel tax is the third greatest generator of HURF revenue (the gas tax and the Vehicle License Tax being the first and second, respectively). In FY 1999, one cent (1¢) of use fuel tax yielded \$5.9 million of HURF revenue.

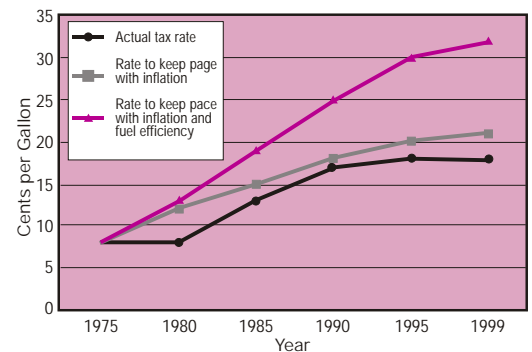
From FY 1990 to FY 1999, HURF use fuel tax revenues increased on average 13.1% annually. This high average is due in part to the imposition of a tax surcharge, although diesel consumption has been increasing. From FY 1995 to FY 1999, the average annual increase in HURF use fuel tax revenue was 10.1%. Projections for the period FY 2000 to FY 2009 assume a conservative average annual increase of 2.7%.

Effects of Inflation and Vehicle Fuel Efficiency

Arizona's fuel tax is a flat tax. Inflation and fuel efficiency erode the effectiveness of a fixed rate tax. In 1975, Arizona's gas tax rate was 8¢. In order to offset the impact of inflation, the 1999 rate would need to be 21¢ per gallon to be equivalent to the 1975 rate. This is 3¢ more than the actual rate of 18¢ per gallon.

In addition, improvements in fuel efficiency significantly impact fuel tax revenue. In 1975, passenger cars averaged 13.1 mile per gallon (MPG). In 1999, the average MPG was 19.6, a 50% improvement in 1975 fuel efficiency. This translates into less cents per mile tax revenue. If the combined impacts of inflation and fuel efficiency are considered, Arizona's gas tax rate of 18¢ would have to be 32¢ per gallon as illustrated in Figure 2.

Figure 2
Effects of Inflation and Vehicle Fuel Efficiency on Gasoline Tax Rates



Motor Carrier Fees

A motor carrier tax was first introduced in Arizona in 1979 as a motor carrier use tax. It has undergone several changes in recent years. Currently, motor carrier fees are based strictly on weight.

For reference, the lightest vehicles (12,001-14,000 pounds) pay \$64 per year while the heaviest (75,001-80,000) pay \$800 annually. Motor carrier fees generate the least amount of HURF revenue, accounting for only 3.5% of FY 1999 total HURF revenue. In FY 1999, these fees generated \$34.2 million. By FY 2009, it is estimated \$39.9 million will be generated, assuming an average annual increase of 1.8% per year.

Vehicle License Tax

The Vehicle License Tax (VLT) is an in-lieu property tax originally approved by the voters in 1940. It is the only inflation-response HURF revenue source. The amount due is dependent on the value of the vehicle. Therefore, without changing the rate structure, revenues will increase as vehicle prices increase.

In recent years, (VLT) has undergone significant reductions in tax rates. Although presently a portion of VLT revenue is dedicated to transportation, the VLT is not constitutionally dedicated to transportation.

As of June 1, 2000, HURF will receive 42.74% of total VLT revenues. In addition, there is another 10.5% distributed to the State Highway Fund, counties, and to the Local Transportation Assistance Fund (LTAF II) that must be used for transportation purposes. The LTAF II VLT distribution to cities, towns and counties reverts to the State Highway Fund on October 1, 2003.

The VLT yielded \$220 million HURF revenue in FY 1999. Since FY 1990, the HURF VLT revenues have increased on average by 10.3% per year. Under current formulas, revenues are expected to increase in the future by approximately 8.1% per year. VLT revenues accounted for 22.4% of total HURF revenues in FY 1999 and are expected to account for 32% by FY 2009.

Other Transportation Revenues

Other Highway Revenues

In addition to HURF revenues, there are other sources of revenues for transportation projects. These include federal, state and local funds.

Federal Revenues

In FY 1999, \$376.6 million of federal funds were obligated to Arizona. A portion of the federal revenues received by Arizona is distributed to major metropolitan areas as required by the Transportation Equity Act for the 21st Century (TEA-21). Both Maricopa and Pima Association of Governments receive such funds. A portion of the remaining state programmable funds are available to local governments through specified programs. In FY 1999, of the \$376.6 million obligated to Arizona, the state received 76%, local governments received 5% and urban areas received 19%.

Regional Area Road Funds

Legislation passed in 1985 enables counties to hold an election to vote on up to a 0.5% sales tax increase for a period of not more than twenty years to be used for transportation projects. Currently only Maricopa,



Pinal and Gila Counties have approved such taxes. The statute providing for increases of time extensions of these taxes was repealed in 1999.

In FY 1999, Maricopa's Regional Area Road Fund (RARF) generated approximately \$229 million. Of this amount, \$7 million was used for transit and the remaining \$222 million was used for highway projects

Local Transportation Assistance Funds

The original Local Transportation Assistance Fund (LTAF I) is funded from state lottery proceeds, with a minimum and maximum set at \$20.5 and \$23 million respectively. Since 1986, LTAF I has received the maximum of \$23 million.

In 1998, legislation was enacted that established LTAF II to provide additional statewide transit and transportation funding assistance. There are two funding streams for LTAF II: (1) through multi-state lottery games and instant bingo games, and (2) a portion of the State Highway Fund VLT revenues. Effective 2000, LTAF II funds are now restricted to transit.

LTAF II has a statutory limit of \$18 million. In FY 1999, LTAF II received \$6.8 million. The distribution of the State Highway Fund's VLT monies to LTAF II is effective through September 30, 2003.

Non-HURF VLT Revenues

In addition to the HURF and LTAF II shares that are dedicated for transportation purposes, counties receive a share of VLT revenues that must be used for transportation. In FY 1999, this amounted to \$14 million.

Local Revenues

In addition to the dedicated funding sources noted, cities, towns and counties also spend locally generated revenue on street and road projects through the allocation of general fund revenues.

Transit Revenues

Federal Funding

Four federal programs are the principal sources for federal monies for transit. All are administered by the Federal Transit Administration (FTA). These are FTA Section 5307, FTA Section 5309, FTA Section 5310, and FTA Section 5311. Some of these are allocated on a formula basis; others are awarded on a competitive basis. Some are awarded for planning; some for capital purposes. Required local match ranges from 20% to 50%. Section 5310 funds are allocated to support costs associated with transportation for the elderly and people with disabilities. Arizona received \$45 million in federal funds for transit in FY 1999.

State Funding

State funds for transit come from LTAF II. Regional or local sources of transit funding include the RARF's previously described, as well as local sales taxes with revenues dedicated to transit. Tempe, Mesa and Phoenix passed a city-wide sales taxes dedicated to support transit. The only other dedicated source of transit revenue is transit fares.

Aviation Revenues

Arizona's airports are funded primarily via two funding streams. One, the Federal Airport Improvement Program (AIP), administered by the

Federal Aviation Administration, is a user fee financed program that provides funding for airport safety, security and capacity needs. In recent years, appropriations have been reduced. In 1998, the funding level was \$1.7 billion.

But most Arizona airports do not generate sufficient passenger traffic to enable them to receive sufficient FAA AIP funds to support infrastructure needs. In 1998, of Arizona's 66 primary airports, only 21 received federal funding. None of Arizona's 35 secondary airports are eligible for federal funding.

The second major airport funding stream is the State Aviation Fund. Created to support aviation in Arizona, the State Aviation Fund is administered by the Arizona Department of Transportation. The major revenue sources are the:

- ▼ Flight Property Tax - a tax on airline companies operating flight property - e.g. aircraft
- ▼ Aircraft License (Lieu) Tax - a tax levied on the average fair market value of aircraft based and registered in the state
- ▼ Aviation Fuel Tax - a 5¢ per gallon tax on aviation and motor vehicle fuel (gasoline) used in aircraft
- ▼ Grand Canyon Airport Revenue - income from the operation of the Grand Canyon Airport
- ▼ Investment Interest - interest on Aviation Fund balances
- ▼ Miscellaneous Revenue - revenue from miscellaneous sources such as publication sales, lieu tax penalties, and interest on tax collections.

In FY 1999, a total of \$20.5 million was generated by State Aviation Fund revenue sources. In recent years, Arizona's airports have been significantly impacted by funding losses resulting from changes in the allocation of flight property taxes from the State Aviation Fund.

Rail Revenues

There are 2,100 miles of rail line in Arizona - 1,174 main line, 146 individual line and 780 branch line miles. Service in Arizona is primarily related to freight movement; however, there are two Amtrak routes in Arizona and several rail tourist operations.

There is, however, no dedicated public revenue stream in Arizona for rail improvements. Rail freight improvements have been financed through the Federal Railroad Administration's Local Rail Freight Assistance Program. This grant program has provided Arizona with \$4 million since 1980 to help leverage financing for over \$10 million of rail improvements. The \$6 million balance was from local funds. Congress, however, has not funded this program since 1994.



Comparisons With Other States

Table 1 illustrates how Arizona's total vehicle tax and fee payments compare with U.S. averages and with neighboring states. For a mid-sized

new automobile, Arizona ranks #14 out of the fifty states. For a ten-year old automobile, Arizona ranks #32.

Table 1

Total Vehicle Tax and Fee Payments

Vehicle	Range for all 50 States	US Average	Average of Neighbor States ¹	\$	Arizona Rank
Automobiles					
Midsize New -- 2000	\$104.94 - \$1,803.97	\$378.29	\$386.12	\$480.67	#14
Midsize 10 yrs., old -- 1990	\$90.00 - \$299.56	\$144.41	\$167.02	\$126.90	#32
Trucks					
30,000 Pounds	\$976.00 - \$5,630.00	\$2,135.64	\$2,342.05	\$2,961.45	#7
50,000 Pounds	\$1,666.08 - \$8,314.88	\$3,454.77	\$3,825.92	\$4,714.89	#7
70,000 Pounds	\$2,699.76 - \$12,250.16	\$5,424.25	\$5,880.84	\$7,209.13	#7
80,000 Pounds	\$3,000.44 - \$15,061.04	\$6,084.12	\$6,434.15	\$7,964.07	#6

¹ Arizona's neighbor states are California, Colorado, Nevada, New Mexico and Utah

Potential Alternative Revenue Sources

As the Task Force assesses how to ensure that we have sufficient resources to pay for the needed improvement, operation and maintenance of Arizona's transportation system, we will be looking at a variety of funding mechanisms -- both singly and in combination. Potential funding mechanisms identified for consideration reflect both political feasibility and ability to generate sufficient revenues.

The Task Force has hired a nationally recognized consultant, Wilbur Smith & Associates (WSA), to evaluate current funding sources and potential new funding sources. The funding sources currently being considered by WSA include: motor vehicle fuel tax increase, use fuel tax increase, registration fee increase, vehicle miles traveled tax, tolls/ congestion pricing, BTU/Energy taxes, motor fuels sales tax, motor vehicles sales tax, general statewide sales tax surcharge, personal income tax surcharge, property tax increases for transportation, utility fees, and exactions / impact fees.

Those not currently being considered by WSA to fund transportation include: VLT increase, motor carrier fee increase, VLT surcharge, parking tax, alternative fuels tax, sales taxes on products and services, sales taxes -- county surcharge, corporate income tax surcharge, value capture taxes, public/private joint ventures, admissions taxes, accommodations taxes for transportation.

What Happens Next

The Task Force is currently evaluating the impacts of the existing and projected transportation revenues and the overall transportation needs of the state. The next step is to develop a set of transportation alternatives, or plan and funding scenarios, for presentation to the general public in January and February, 2001. Based on public comment, the Task Force will then refine the alternatives and is expected to submit final recommendations to the Governor in April, 2001.



Information concerning activities of the Task Force may be obtained from the Vision 21 Task Force Administrative Coordinator, Matt Carpenter, at 206 S. 17th Ave., 310B, Phoenix, AZ 85007, telephone 602.712.7865 or by e-mail at vision21@dot.state.az.us.

Visit our web site at:
www.dot.state.az.us/vision21

Source of revenue data:
"Overview of Existing Revenue Sources, Emerging Issues and Potential Alternative Revenue Sources", Wilbur Smith Associates, July, 2000 Additional source of airport revenue data: Arizona Airports' Association and Arizona Department of Transportation
